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Renata Stenka^a & Peter Taylor^{b c}

^a School of Economic and Management Studies, Keele University, Chancellor's Building, Keele, Staffordshire, ST5 5BG Phone: +44(0)1782 733431 E-mail:

^b School of Management, University of Liverpool

^c Manchester Business School, University of Manchester

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Setting UK standards on the concept of control: an analysis of lobbying behaviour

Renata Stenka and Peter Taylor*

Abstract — The present study aims to contribute to an understanding of the complexity of lobbying activities within the accounting standard-setting process in the UK. The paper reports detailed content analysis of submission letters to four related exposure drafts. These preceded two accounting standards that set out the concept of control used to determine the scope of consolidation in the UK, except for reporting under international standards. Regulation on the concept of control provides rich patterns of lobbying behaviour due to its controversial nature and its significance to financial reporting. Our examination is conducted by dividing lobbyists into two categories, corporate and non-corporate, which are hypothesised (and demonstrated) to lobby differently. In order to test the significance of these differences we apply ANOVA techniques and univariate regression analysis. Corporate respondents are found to devote more attention to issues of specific applicability of the concept of control, whereas non-corporate respondents tend to devote more attention to issues of general applicability of this concept. A strong association between the issues raised by corporate respondents and their line of business is revealed. Both categories of lobbyists are found to advance conceptually-based arguments more often than economic consequences-based or combined arguments. However, when economic consequences-based arguments are used, they come exclusively from the corporate category of respondents.

Keywords: consolidated financial statements; accounting standards; lobbying

1. Introduction

The lobbying behaviour of participants in the accounting standard-setting process can be complex (Sutton, 1984; Young, 1994; Georgiou, 2004; Kwok and Sharp, 2005; Masocha and Weetman, 2007). This paper seeks to contribute to understanding of this complexity. It examines empirically lobbying activities on four related exposure drafts (EDs). These drafts preceded two UK accounting standards, namely FRS 2 *Accounting for Subsidiary Undertakings* (ASB, 1992) and FRS 5 *Reporting the Substance of Transactions* (ASB, 1994), that regulate the concept of control used to determine the scope of consolidation in the UK, except for reporting under international accounting standards.¹

We expect that the concept of control would initiate rich patterns of lobbying behaviour due to its controversial nature and its importance to financial

reporting. The scope of consolidation is central to corporate reporting, as significant business activities have increasingly come to be conducted by group structures rather than single entities (Wooldridge, 1981, 1991; Nobes, 1987, 1993; Flower, 2004). As consolidation became the dominant method for preparing group financial statements, so the concept of control determining the scope of consolidation proved to be one of the most challenging conceptual and technical issues for accounting regulators (Nobes, 1987, 1993; Flower, 2004). Regulations determining the composition of the group have the potential to instigate a range of economic consequences through their implications for contracting relationships (e.g. debt covenants) and through other economic mechanisms (Moonitz, 1978; Peasnell and Yaansah, 1988; Mian and Smith, 1990a; Paterson, 1993; Nobes, 1993; Flower, 2004). Likely effects arise due to impacts on accounting numbers reported on the balance sheet and financial relationships existing off-balance sheet (and associated measurements of gearing, risk, and debt capacity) as well as within the income statement (with associated impacts on measured performance and financial ratios of efficiency and profitability) (Peasnell and Yaansah, 1988; Paterson, 1993; Flower, 2004). It is not surprising therefore that

*Renata Stenka is at the School of Economic and Management Studies at Keele University and Peter Taylor is at the School of Management at the University of Liverpool and is also affiliated to Manchester Business School at the University of Manchester.

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Correspondence should be addressed to: Dr Renata Stenka, School of Management and Economic Studies, Keele University, Chancellor's Building, Keele, Staffordshire, ST5 5BG. Tel: +44(0)1782 733431. E-mail: r.i.stenka@mngt.keele.ac.uk

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¹ From 1 January 2005 UK listed companies became subject to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) with regard to their consolidated financial statements. Appropriate international standards superseded FRS 2 and FRS 5.

the concept of control as a determinant of the scope of consolidation has been at the centre of much controversy in the evolution of the UK generally accepted accounting principles (GAAP) (Bircher, 1988; Nobes, 1987, 1993; Rutherford, 2007: 258–264). The public and regulatory debate, with its practical and theoretical disputes, has been widely reported, for example by Nobes (1987, 1990, 1993), Ebling (1989), Pimm (1990), and Rutherford (2007: 258–264). A discussion of the UK setting at the time the EDs were released is presented in the regulatory background section of the paper. Controversy on the control concept continues within the international regulatory arena (Ketzel, 2003; Flower, 2004; Camfferman and Zeff, 2006; Hoogendoorn, 2006). At the time of writing, the IASB had two projects in train that related to this concept.²

Analysis of the four EDs that led to FRS 2 and FRS 5 is conducted by dividing respondents to the exposure drafts into two broad categories, corporate and non-corporate, in order to reveal differences in the pattern of their lobbying behaviour. This division is based on the proposition that corporate and non-corporate lobbyists demonstrate different modes of rationality with regard to accounting issues and therefore will lobby differently. Detailed discussion of the lobbyists' taxonomy is included in the hypotheses development section of the paper. The following research questions are addressed by this study.

1. Do the issues³ addressed by corporate lobbyists in relation to proposals to regulate the concept of control differ in nature from those addressed by non-corporate lobbyists?
2. Do the arguments used by corporate lobbyists in relation to proposals to regulate the concept of control differ from those used by non-corporate lobbyists?

The literature on lobbying is both varied and extensive and includes a number of different approaches and perspectives. There is a widespread recognition that lobbying in the form of submission letters provides respondents with a means of influence and persuasion (Sutton, 1984; Booth and Cocks, 1990; Young, 1994, 2003; MacDonald and

Richardson, 2004). Comment letters submitted in response to exposure drafts or discussion papers on proposed accounting standards frequently exhibit complexity and richness in their content and a number of researchers have conducted comprehensive analyses of them (e.g. Hope and Briggs, 1982; Hope and Gray, 1982; Nobes, 1992; Tutticci et al., 1994; Weetman et al., 1996; Jupe, 2000; Weetman, 2001; Hill et al., 2002). The present paper seeks to complement these studies. A contribution of the paper lies in its focus on systematic differences in lobbying behaviour between different categories of respondents. We report detailed comparative analysis of the lobbying behaviour of corporate and non-corporate lobbyists that are hypothesised (and demonstrated) to lobby differently. Thus, the study's premise is that it is important to understand the differences in the pattern of lobbying activities between different categories of respondents. Our approach builds on other research whose focus, in contrast, has been on single groups of respondents, usually corporate lobbyists (Ndubizu et al., 1993; Larson, 1997; Ang et al., 2000; Hill et al., 2002). Reviewing the literature on lobbying, one can observe that the majority of existing empirical research either examines political interplay in the regulatory domain and standard-setters' level of responsiveness to constituents' suggestions (Hope and Gray, 1982; Pong and Whittington, 1996; Jupe, 2000; Weetman, 2001; Kwok and Sharp, 2005) or investigates motivation and characteristics of the parties involved in lobbying (Watts and Zimmerman, 1978; McArthur, 1988; Larson, 1997; Ang et al. 2000; Georgiou, 2005).⁴ There are a number of studies that do examine lobbying behaviour of different groups of respondents but cross-respondent group analysis is not the main focus of those authors' investigations (e.g. Hope and Briggs, 1982; Hope and Gray, 1982; Nobes, 1992; Jupe, 2000; Larson and Brown, 2001).

In addition, we note that much of the existing literature examines single EDs (e.g. Tutticci et al., 1994; Jupe, 2000) or groups of unrelated EDs (e.g. McArthur, 1988; Kenny and Larson, 1995; Georgiou, 2004, 2005).⁵ Thus, a novelty of the

² These are: phase D of *Conceptual Framework Project: Reporting Entity*, which deals with control criteria conceptually, and *Consolidation Project* that aims to refine and apply these criteria in the accounting standard context.

³ Our interpretation of terms such as 'issue' and 'argument' is presented in the sections on hypotheses development and data and methodology below. Briefly, an 'argument' is any line of reasoning, criticism, or comment, whilst an 'issue' is any distinct matter of relevance to an ED or matter contained in an ED which is referred to by a respondent.

⁴ One study that undertakes a comprehensive analysis of the strategies employed by different groups of respondents is that of Tutticci et al. (1994). The paper analyses the length of comments, the strength of stated positions, the nature of arguments offered, and finally the number of issues commented on by different groups of respondents.

⁵ There are few empirical studies that are exceptions to this conclusion and which base their analysis on the selection of proposals that together address the same issue. Exceptions are the studies of international standard-setting by Guenther and Hussein (1995) and Larson and Brown (2001), and the studies of national standard-setting by for example Hope and Briggs

present paper is that it analyses a set of proposals that together address the same issue thereby allowing the opportunity for richer insights into lobbying behaviour.

The remainder of the paper is organised as follows. Section 2 presents an overview of prior literature on accounting standard-setting, while Section 3 describes the political and regulatory background relevant to the exposure drafts analysed. Section 4 discusses the theoretical framework and hypotheses, and Section 5 describes the data and methodology utilised to test these hypotheses. Section 6 presents the results. The final section provides conclusions.

2. Prior research

Accounting standard-setting, like every rule-making process, must be viewed, at least partly, as a political activity. This point has considerable support in both theoretical and empirical accounting literatures that acknowledge the far reaching economic and social consequences of accounting standards (Watts and Zimmerman, 1978; Taylor and Turley, 1986; Mines et al., 1997; Zeff, 2002; Carter and Lynch, 2003; Masocha and Weetman, 2007; Rutherford, 2007). Lobbying activities are an integral part of this political process and are defined as efforts by individuals and organisations to promote, influence or obstruct proposed standards (Watts and Zimmerman, 1978; Weetman et al., 1996; Georgiou, 2004, 2005; Broadbent and Laughlin, 2005; Durocher et al., 2007). The research we consider in this section relates primarily but not exclusively to the UK, the US and Australia, together with work on international accounting standards. Each of these settings represents a different institutional context, with varying political interactions. Differences in regulatory background may affect the applicability of research findings to other contexts but while acknowledging this, we stress that the empirical research reported by this study focuses mainly on submission letters, an element of the due process of accounting standard-setting that is common across all the regulatory contexts cited in the paper. We trust that this commonality will assist in moderating the impact on the analysis and results discussed in the paper of differences in institutional settings and cultural backgrounds of lobbyists and regulators.

Lobbying activities are difficult to investigate due to the indeterminacy of their timing and because

many lobbying efforts are not directly observable (Young, 1994; Weetman, 2001; Broadbent and Laughlin, 2005). Lobbying can occur before accounting issues are admitted to the formal agendas of regulators and may occur before the due process of standard-setting even starts. The accounting standard-setting agenda can be manipulated so that controversial issues do not pass a test of appropriateness and so are not allowed onto the agenda, staying as a covert conflict. Furthermore, potentially controversial issues may be kept out of the politics of accounting regulation altogether, representing latent conflict (Sutton, 1984; Hussein and Ketz, 1991; Young, 1994; Weetman, 2001; Jones et al., 2004). Lobbying activities can take a variety of forms through formal and informal channels, such as discussions with members of regulatory bodies, pressure through media reports and campaigns, representations to regulatory bodies, as well as written submissions to publicly available EDs on accounting standards (Walker and Robinson, 1993; Georgiou, 2004).

Despite acknowledging that lobbying can take a variety of forms, some of which are not always manifest, the accounting literature does not provide a feasible methodology that fully analyses the richness of lobbying activities. For example, lobbying may occur through the provision of subsidised information to a rule-making body or during informal telephone conversations but neither of these types of lobbying could feasibly be empirically tested. The form of lobbying which is most visible (and hence most accessible for formal analysis) is through written submissions from interested parties on exposure drafts preceding the publication of financial reporting standards. Thus, the main body of empirical research examines this form of lobbying. The work by Georgiou (2004), examining different methods of lobbying and their perceived effectiveness, suggests that comment letters are likely to be a good proxy for at least the direct lobbying activities to which a regulatory body is subjected.

Two main themes can be identified in the literature investigating lobbying within the accounting standards-setting process. One group of researchers considers relationships of power within the standard-setting process and examines regulators' interactions with parties involved in lobbying (e.g. Hope and Gray, 1982; Pong and Whittington, 1996; Weetman, 2001; Kwok and Sharp, 2005). A second group analyses the incentives to lobby and their impact on lobbyists' behaviour (e.g. Watts and Zimmerman, 1978; McArthur, 1988; Weetman et al., 1994; Hill et al. 2002). Standard-setting takes

(1982), Hope and Gray (1982), and Feroz (1987). However, none of these studies conducts fully comprehensive comparable analysis of the lobbying of different constituent groups.

place in institutional and social contexts where allocations of power are affected by cultural, political and market forces (Young, 1994; MacDonald and Richardson, 2004). The regulator, in order to survive and maintain her/his position, must establish and preserve legitimacy in the eyes of the constituents⁶ (Watts and Zimmerman, 1986; Young, 2003; Masocha and Weetman, 2007). This provides some constituents with the scope to recreate institutional relationships according to their preferences, as described by empirical studies of lobbying at national (Jupe, 2000; Weetman, 2001) and international levels (Kenny and Larson, 1993; Kwok and Sharp, 2005).

Research examining standard-setters' responsiveness to constituents' suggestions as expressed in their comment letters presents contradictory findings. Some researchers cite examples of successful lobbying (Hope and Briggs, 1982; Hope and Gray, 1982; Nobes, 1992; Pong and Whittington, 1996; Kwok and Sharp, 2005), while other studies reveal evidence of the low impact of lobbyists' submissions on the regulator (Brown, 1981; Mian and Smith, 1990b; Saemann, 1999; Weetman, 2001).⁷ When successful lobbying is evidenced, the corporate sector is the most frequently mentioned constituent group that appears to exert influence (Hope and Briggs, 1982; Hope and Gray, 1982; Nobes, 1992; Jupe, 2000; Ang et al., 2000). Other authors indicate that regulatory bodies, regardless of the degree of their responsiveness, are most aligned to the views of users of financial statements (Saemann, 1999; Weetman, 2001) even if only 'on the surface' (Weetman, 2001: 105). Some studies find no alignment between the behaviour of regulators and the preferences of specific lobbying groups (Hussein and Ketz, 1980; Coombes and Stokes, 1985; Giner and Arce, 2004), and this is interpreted as evidence of the independence of standard-setters. Analysis of the structure of constituent participation consistently reveals that preparers of financial statements are the most active lobbying group and that responses from users of financial statements are infrequent by comparison (Weetman et al., 1994, 1996; Ryan et al., 2000).

A second theme of research attempts to identify incentives associated with the decision to lobby and

seeks to analyse the impact of such incentives on the lobbying positions of constituents. These studies are based on the assumption that since lobbying activities involve real economic costs, a rational individual or organisation will only lobby if the benefits of the desired outcome, adjusted by the probability that lobbying will lead to the desired outcome, exceed these costs (Olson, 1965; Sutton, 1984; Watts and Zimmerman, 1986; Lindahl, 1987). Such studies mostly consider lobbying incentives for two categories of constituents, corporate respondents and accounting firms.

Generally, the benefits of lobbying for corporate respondents are seen to depend upon the potential impact of the proposed regulations on their expected future cash flows through political and contracting costs (Watts and Zimmerman, 1986). Firm size as a proxy for political costs has been found to be the most important determinant of lobbying behaviour (Watts and Zimmerman, 1978; Larson, 1997; Ang et al., 2000; Georgiou, 2005). This is followed by the debt/equity ratio (Dhaliwal, 1980; Deakin, 1989; Ndubizu et al., 1993) and management compensation plans (El-Gazzar et al., 1986; Deakin, 1989) as proxies for contracting costs. The relevance of proposed rules or rule changes to the particular economic setting of a company has been offered as a proxy for compliance costs. Research testing this proxy has found evidence of its impact on managers' lobbying behaviour (Sutton, 1988; Mian and Smith, 1990b; Larson, 1997; Hill et al., 2002).

Studies of the incentives of accounting firms have revealed tendencies for firms to favour regulatory proposals that enhance their audit opportunities (Puro, 1984, 1985; Clarke et al., 1997; Saemann, 1999) and tendencies to lobby in a manner that establishes and maintains their public credibility (Booth and Cocks, 1990; Lee, 1993, 1995; Saemann, 1999). An alternative approach, which regards accounting firms' wealth as a function of their clients' wealth, suggests that accounting firms would lobby for rules that promote their clients' economic interests (Watts and Zimmerman, 1981; McKee, 1991; Meier et al., 1993; Owsen, 1998; Georgiou, 2002).

Some researchers have examined the content of submissions to analyse lobbying strategies employed by respondents to discussion papers and exposure drafts (Nobes, 1992; Tutticci et al., 1994; Weetman et al., 1996; Jupe, 2000; Weetman, 2001). In relation to the nature of arguments used, respondents are found to use either conceptually-based arguments that refer to accounting concepts or principles, or economic consequences-based

⁶ The word 'constituents' refers here to all parties who have an interest in financial accounting and reporting.

⁷ According to this group of researchers a low rate of comment incorporation into final standards may mean that a rule-making body either attempts to compromise diverse constituent preferences or simply ignores the comments (Brown, 1981). Alternatively, the crucial issues may have been already discussed in private before the consultation was brought into the public domain (Weetman, 2001).

arguments that refer to economic implications of proposed regulatory changes. Additionally, some studies reveal that respondents also use rationales that combine both conceptually-based and economic consequences-based arguments when justifying their position (Tutticci et al., 1994; Jupe, 2000). With regard to the strength of respondents' comments, lobbyists are found to express varying degrees of agreement or disagreement, from full support through support with minor or substantial reservations, to a fundamental objection (Tutticci et al., 1994).

Some studies suggest that lobbyists may present positions that do not reflect their true beliefs if those beliefs might be perceived as socially or politically unacceptable. Jupe (2000: 346) argues that, in their efforts to influence a regulator, respondents may have implicitly considered economic consequences but explicitly may have used self-referential arguments that related to their own accounting practices. In addition, Weetman et al. (1996: 75) suggest that with lack of user participation in the standard-setting process, preparers may be ready to advance their opinions of users' needs in order to enhance the credibility of their own submissions. The transparency of corporate submissions has also been questioned by, for example, MacArthur (1988), Tutticci et al. (1994), and Dechow et al. (1996).

3. Regulatory background

The present study, as indicated earlier, uses the regulatory concept of control that determines the scope of consolidation as its focus for the analysis of lobbying activities. The main rationale of consolidation is to aggregate results, assets and liabilities of entities that despite having separate legal identities can be considered a single economic unit (Mumford, 1982; Nobes, 1987, 1993; see also: ASB, 1999, ch. 2). Following this logic, the question of which undertakings are to be consolidated is tied to the concept of control: all entities that are controlled by a company ought to be consolidated in that company's accounts (Nobes, 1987, 1993; see also: ASB, 1999, ch. 2). That said, the development of regulation on control and consolidation is complex and the regulatory space has been correspondingly densely populated (Nobes, 1993; Rutherford, 2007: 258–264). We shall now briefly review this development to set the regulatory background for the paper.

In the UK, group accounts have been prepared since at least the 1920s but were not required by law until the Companies Act 1947 (Wooldridge, 1981; Edwards and Webb, 1984; Nobes and Parker, 1984; Nobes, 1987, 1993). However, the Act did not

specify detailed rules and a parent company could choose between several options in presenting its group accounts (Companies Act 1947, s. 151(3)). Following a long period of regulatory stability these options were narrowed to the form of full consolidation⁸ by SSAP 14 *Group Accounts* (ASC, 1978) issued by the Accounting Standards Committee (ASC) (Wooldridge, 1981: 22). Consolidation became the only permissible form of group accounts by statute rather later, through the Companies Act 1989, which implemented the EU Seventh Directive into UK company law (Pennington, 1990; Wooldridge, 1991; Nobes, 1993). Prior to the Companies Act 1989 recognition of control was mainly based on ownership of equity, requiring a parent either: (a) to hold more than half in nominal value of the subsidiary's equity; or (b) be a member of it and control the composition of its board of directors (Wooldridge, 1981: 17). The implementation of the EU Seventh Directive in statutory provisions switched recognition criteria from being based on legal rights (*de jure*) to those based on effective (*de facto*) control. It is important to note that lobbying with regard to the concept of control occurred during the UK's negotiations on the EU Seventh Directive. Diggle and Nobes (1994) have examined the lengthy process of shaping the EU Seventh Directive⁹ and conclude that the Seventh Directive evolved from its initial draft based on German principles and practices into a final form more Anglo-Saxon in content. The changes arose in part from the substitution of UK elements for German, as well as from the addition of UK options to German rules (the final version of the EU Seventh Directive contained a large number of options available to EU Member States). These changes Diggle and Nobes (1994) attribute to the activities of a substantial coalition of both national interests and professional accountancy opinion in

⁸ Full consolidation refers here to the practice of combining financial statements of all group undertakings on a line-by-line basis (i.e. adding together corresponding items of assets, liabilities, revenues and expenses), eliminating intergroup balances and transactions, and providing for minority interests in the controlled entities (Wooldridge, 1991: 63). Provisions of the Companies Act 1947 allowed for alternative forms of group accounting, if in the opinion of the directors, a better presentation of the same or equivalent information, which could be readily appreciated by members, could be achieved (Companies Act 1947, s. 151(3)). See also: AISG (1973), Wilkins (1979), Wooldridge (1981), and Nobes (1993).

⁹ A detailed chronology is given in Diggle and Nobes (1994) but briefly, the Seventh Directive originated in a preliminary draft prepared within the Commission in 1974 and was published as a draft directive in 1976; a revised draft directive was released in 1979 and after many years of discussion, compromise and refinement, the final version of the directive was approved in June 1983. See also Muchinski (1999).

favour of the changes. Other macro-level lobbying took place over the choice by the Department of Trade and Industry (DTI) as to which of the many options (Nobes 1990) within the final version of the Seventh Directive were to be adopted in the Bill leading to the Companies Act 1989,¹⁰ lobbying which is important in itself as part of the wider regulatory background but which is also relevant to the lobbying by individual respondents on particular EDs.¹¹

As a result of the implementation of the EU Seventh Directive, SSAP 14 was no longer fully consistent with legislation and needed to be reviewed (Nobes, 1993). The review was undertaken initially by the ASC which issued, in July 1990, ED 50 *Consolidated Accounts* (ASC, 1990b). Shortly after the issue of ED 50, the ASC was superseded by the Accounting Standards Board (ASB). In December 1990 the ASB issued an Interim Statement *Consolidated Accounts* (ASB, 1990a) which had immediate effect, to coincide with the introduction of the accounting provisions of the Companies Act 1989. At the time, the stated intention of the ASB was to issue a Financial Reporting Standard (FRS), dealing not only with subsidiaries but also associates and joint ventures. However, due to the complexity of the subject and recognition of the pressing need to issue a standard dealing with subsidiaries, in 1992 the ASB decided to issue FRS 2 *Accounting for Subsidiary Undertakings* (ASB, 1992) and left accounting for associates and joint ventures for subsequent attention. In drafting FRS 2, the ASB considered comments submitted on ED 50. FRS 2 (para. 14) refers directly to the Companies Act 1989 (s. 285) and lists conditions under which control can be identified and therefore a subsidiary undertaking recognised.

Identification of control for the purpose of determining the scope of consolidation is also dealt with in FRS 5 *Reporting the Substance of*

Transactions (ASB, 1994). The ability to exercise control is not only confined to cases where another entity is a subsidiary undertaking as defined in the statute. It was recognised that reporting entities might sometimes establish other undertakings by arrangements that provided the first entity with effective control, but where none of such arrangements were covered by any of the legal tests for control recognition (ED 49, ASC, 1990a, para. 58). Such entities had been widely used for off-balance-sheet financing schemes (Peasnell and Yaansah, 1988). As a remedy, the concept of quasi-subsidiary was introduced.¹² Instead of a list of tests, quasi-subsidiaries were identified by direct application to the definition of control itself. As the essence of control is the ability to obtain benefits, in deciding whether an entity was a quasi-subsidiary of another enterprise, regard was to be given to those who enjoyed benefits arising from its activities (FRS 5, para. 32). Generally, where the commercial effect for the reporting enterprise was no different from what would result from having a subsidiary then the vehicle was to be classified as a quasi-subsidiary and, following the notion of reporting substance over form, consolidated.

At the time of the release of the exposure drafts preceding FRS 2 and FRS 5, the scope of consolidation was one of the most pressing and controversial issues in financial reporting in the UK (Peasnell and Yaansah, 1988; Nobes, 1993; Rutherford, 2007: 258–264). The deregulatory thrust of UK governmental policies in the 1980s encouraged the banking sector to lend in newer and more ingenious ways (Rutherford, 2007: 258). This, accompanied by increasingly aggressive management of financial institutions, and active and imaginative financial engineering by companies, contributed to a rapid increase in the use of off-balance-sheet finance in the late 1980s (Rutherford, 2007: 258). Concern with the implications of these developments for

¹⁰ Thus, the DTI was lobbied behind the scenes to shift from its earlier position of supporting the Companies Act 1985 approach to control. The debate about off-balance sheet financing in the UK led the DTI to implement options that would allow for widening the consolidation requirement and restricting opportunities for off-balance-sheet finance schemes (Brown, 1990; Nobes, 1990; and Pimm, 1990). The UK Government's stated intention was to bring off-balance-sheet vehicles back within the scope of consolidation (Pimm, 1990: 88). See also: Wooldridge (1991), Nobes (1993), and Edwards (1999).

¹¹ For example, we may note in the context of footnote 12 below and of our results discussed later that those lobbying on ED 49 would have been aware the DTI had changed its position following the debate on the treatment of quasi-subsidiaries during the development of ED 42, thereby informing directions and strengths of lobbying.

¹² The regulatory treatment of quasi-subsidiaries in off-balance-sheet financing schemes commenced with Technical Release (TR) 603, *Off Balance Sheet Financing and Window Dressing*, issued by the Institute of Chartered Accountants in England and Wales (ICAEW) in 1985, which recommended a substance over form approach. The Technical Committee of the ICAEW passed its work to the ASC and in May 1988 the ASC issued ED 42 *Accounting for Special Purpose Transactions* (ASC, 1988). The debate over ED 42 was 'frozen' pending the passing of the Companies Bill (to become the Companies Act 1989) implementing the EU Seventh Directive with its radical changes to the criteria of control. ED 49 *Reflecting the Substance of Transactions in Assets and Liabilities* (ASC, 1990a), the successor to ED 42, was published by the ASC in May 1990. After much debate the ASB issued FRED 4 *Reporting the Substance of Transactions* (ASB, 1993) in February 1993 before in April 1994 publishing FRS 5 (ASB, 1994).

banking regulation and financial institutional risk management was initially expressed by the Bank of England and soon this concern became more widespread (Rutherford, 2007: 259). The increasingly strident nature of public debate on off-balance-sheet financing was punctuated by pronouncements from the ASC and by suggestions for future legislation from the DTI (Peasnell and Yaansah, 1988). Despite general recognition that there was a need to restrict opportunities for off-balance-sheet finance schemes, substantial reservations with regard to ASC's intentions to broaden the regulatory interpretation and thus recognition of control had been articulated by the legal profession and reported to accountants.¹³ At the end of 1987 the DTI confirmed its intention to implement the EU Seventh Directive in a way that would support the consolidation of controlled non-subsidiaries, aiding the ASC in widening the consolidation requirement (Rutherford, 2007: 262). The pronouncements included in the EDs were generally well received but some concerns remained, articulated mainly by accounting practitioners and academics. These reservations referred to potential difficulties in the practical implementation of the changes (Crichton, 1990; Holgate, 1990; Nobes, 1990; Thompson, 1994) as well as concern that a number of off-balance-sheet finance schemes could still escape consolidation (Brown 1990; Holgate, 1990; Pimm, 1990; Watson, 1996).

4. Hypotheses development

We seek to explore whether there are differences in lobbying behaviour between corporate and non-corporate categories of respondents to four related exposure drafts. Analysis of consent or conflict over the standard-setting process necessitates the grouping of interested parties in some way. A frequently used taxonomy underpinning research into lobbying can be linked to what Booth and Cocks (1990) termed 'historical blocs and the social relations of production'. According to Booth and Cocks 'in present Western society it is widely agreed that there are four such groups: corporate management (as a branch of capital), the professions, and the state and labour' (1990: 518). Many studies of lobbying reflect versions of this taxonomy in the context of the accounting standard-setting process. Three main

constituent categories, with different variations, are frequently identified, namely: (a) preparers of financial statements represented mainly by corporations; (b) users of financial statements, comprising investors, creditors and financial analysts; and (c) the accounting profession, namely accounting firms (Sutton, 1984; Tandy and Wilburn, 1992; Tutticci et al., 1994; Saemann, 1999).¹⁴

In order to analyse the lobbying behaviour of categories of respondents one has to understand their patterns of reasoning, how consent or conflict is founded on these, and how they affect the resolution of any such conflict. Modes of rationality will determine respondents' perceptions of how accounting changes included in regulatory proposals will affect their utility and thus their lobbying behaviour (Sutton, 1984; Lindahl, 1987; Booth and Cocks, 1990). Our division of respondents into corporate and non-corporate categories is based on the assumption that each group will have different modes of rationality but the modes will be consistent within each category. A dichotomous classification is supported by Lindahl (1987: 60) who distinguishes participants in lobbying into two main categories: corporations and members of the accounting profession.

The corporate category embraces preparers of financial statements and includes both individual companies and corporate representative bodies. It is suggested that corporate representative organisations (industry trade associations) will lobby on behalf of their constituents and tend to support the majority of positions held by them (Brown and Tarca, 2001). This positive association between interests and lobbying positions of individual companies and their representative bodies is a consequence of companies being the parties that constitute and fund these representative bodies. Thus, it is assumed that representative bodies lobby in order that their members' preferences are better promoted (Olson, 1965; Sutton, 1984; Lindahl, 1987). The non-corporate category mainly comprises respondents from the accounting profession, accounting firms and professional accountancy bodies. The notion of consistency of position between member accountancy firms and their representative bodies is supported by the empirical work of Kenny and Larson (1993) and Saemann (1999), who argue that not only trade but also

¹³ The dispute between the ASC and the legal profession was widely reported in the professional accountancy press, see: 'Court battle looms over off-balance sheet standard'. *Accountancy Age*, 9 April 1987: 1; 'Off-balance sheet legal doubts worsen'. *Accountancy Age*, 16 April 1987: 1; 'ASC stance could lead it into a legal quagmire'. *Accountancy Age*, 7 May 1987: 14; 'Legal fun and games with the ASC'. *Accountancy Age*, 30 July 1987: 13.

¹⁴ There are also some examples of studies that use different taxonomies. For example, Hussein and Ketzi (1980) and Puro (1985) in their studies on elites in the FASB grouped the major auditing firms together, while Laughlin and Puxty (1983) and Weetman et al. (1996) divided standard-setting participants into users and producers of financial statements.

professional organisations lobby on behalf of their constituents and tend to support the majority positions held by those constituents. However, it should be noted that professional accountancy bodies will have multiple representative functions (e.g. representing accountants as attestors as well as preparers of accounts, and the pursuit of broader professional aims). In our study the non-corporate group also contains other types of respondents.¹⁵ Hence, the mode of rationality within the non-corporate group may be less homogeneous than that within the corporate group, and although the strength of the assumption on consistency of mode of rationality within groups is likely to be greater for the corporate than the non-corporate group, we posit broad consistency of mode of rationality within each group as the following discussion argues.

In order to explore the modes of rationality of the corporate and non-corporate categories of respondents, we refer to positive accounting theory which argues that all parties to the process of accounting standards-setting, act to maximise their own utility and are innovative and creative in doing so (Watts and Zimmerman, 1986). Thus respondents would tend to lobby for accounting methods that further their self-interest, e.g. reducing the cost or increasing the benefits of regulations (Walker and Robinson, 1993; Young, 1994; MacDonald and Richardson, 2004).

With regard to the corporate category, proposed regulations can affect companies' wealth due to their potential impact on expected future cash flows through political and contracting costs. Thus corporate respondents who lobby would tend to do so to minimise their exposure to political and contracting costs associated with proposed standards (Watts and Zimmerman, 1986; Deakin, 1989; Larson, 1997; Ang et al., 2000; Elbannan and McKinley, 2006). In addition, the more relevant a proposed change of regulation is to a company's business, the greater the company's exposure to economic effects caused by that change and the greater the compliance costs. Therefore, we would expect respondents (corporate as well as non-corporate) to lobby so that they would minimise their exposure to compliance costs, and to address issues of direct relevance to their business context.

The mode of rationality of non-corporate respondents, represented mainly by the accountancy profession, can be determined by reference to several different theories, all of which are based on the notion of self-interest. According to agency theory, accountancy firms seeing their wealth as a function of that of their clients, are likely to lobby for rules that would promote their clients' economic interest (Watts and Zimmerman, 1981, 1986; Sutton, 1984; Hendrickson, 1998; Georgiou, 2002, 2004). Alternatively, from the theory of professional and legal responsibility, the accountancy profession has incentives to produce detailed, erudite and conceptually sound submissions in order to create the image of objectivity and professionalism needed to maintain its credibility in the public view (Hines, 1989; Zeff, 1984; Archer, 1992; Lee, 1993, 1995). This view may be applied to both accountancy professional bodies and to accounting firms since the latter are, as well as being profit-making firms, members of a profession (both as corporate bodies and collections of individual professionals). The accountancy profession, according to Booth and Cocks (1990: 519), has historically been presented as a precise, accurate, quantitative, and neutral purveyor of fact whose primary responsibility is to the public. Following this notion, the accountancy profession would regard accounting primarily as 'hard factual technology' (Booth and Cocks, 1990: 519). The use of judgment would be bound by criteria set out in standards to facilitate the development of technical accounting answers to problems of financial reporting and the measurement of wealth. Moreover, the risk of litigation provides the accounting profession with an economic incentive to follow a code of professional ethics and consider issues of clarity, certainty, and the appropriateness of financial statements to audit (Saemann, 1999: 5).¹⁶ Additionally, accounting firms might respond to submissions as a form of advertising, displaying their expertise on a broad range of matters of possible concern to existing and potential clients (Lindahl, 1987). Finally, a third theoretical perspective is provided by the economic theory of regulation, which suggests that the accounting profession would promote accounting proposals that bring additional disclosure requirements, since

¹⁵ In addition to the accountancy profession the non-corporate group also includes some users of financial statements (e.g. the Institute of Investment Management), academics, as well as the Law Society, the International Stock Exchange, and the Department of Trade and Industry, as a representative of government, and regulatory authorities. However, whilst these respondents add variety to the non-corporate group they are in a very small minority.

¹⁶ Many of the arguments in this paragraph derived from the theory of professional and legal responsibility are applicable to non-accounting members of the non-corporate group namely the Institute of Investment Management, academics, the Law Society, and the International Stock Exchange, thereby supporting our position of broad consistency of rationality mode for the group.

that would enhance demand for their services (with regard to both preparing and auditing financial statements) and corresponding fees earned (Puro, 1984, 1985; Clarke et al., 1997; Saemann, 1999).¹⁷

4.1. Specific and general applicability of the concept of control

In the light of the foregoing discussion and noting our first research question on potential differences in the nature of issues addressed by the two categories of respondents, we hypothesise as follows, in alternative form:

- H1:** Corporate respondents are more likely to address issues of specific applicability of the concept of control than are non-corporate respondents.
- H2:** Non-corporate respondents are more likely to address issues of general applicability of the concept of control than are corporate respondents.

The specification of our hypotheses introduces matters of data and definition. Thus, for our analysis an 'issue' is any matter of concern relevant to an ED or matter contained in an ED referred to by a respondent. Issues of specific applicability are taken to cover matters of direct relevance to a respondent's particular line of business, or are specific to certain types of business activity. They may also refer to particular economic consequences instigated by the proposals. Issues of general applicability are taken to comprise matters of wide-ranging relevance with broad implications that are not specific to particular types of business activity. They may refer to matters of theoretical or practical soundness of concepts or wording used in proposals, or the general technical feasibility of a proposals' implementation. Appendix I presents a detailed list of the issues mentioned by corporate and non-corporate respondents, classified as being of either general or specific applicability to the concept of control.

The extent of lobbyists' attention given to issues of specific or general applicability of the concept of control is measured by the number of submission letters that mention such issues (as reported in Table 2), the frequency of respondents referring to these issues (as reported in Table 3), as well as the

number of arguments and suggestions that address those issues (as reported in Table 4). As an 'argument' we take any systematic line of reasoning or criticism offered by respondents in support of their view and as a 'suggestion' any proposal to modify the terms of an ED. Issues relating to the concept of control may contain single or multiple arguments and/or suggestions, or may be expressions of concern or interest without any argument or suggestion. The use of multiple and layered proxies for lobbyists' attention (i.e. number of submission letters, frequency with which issues are referred to, and frequency of arguments and suggestions used by respondents) permits a detailed examination of respondents' lobbying activity.

We argue that hypotheses H1 and H2 are consistent with the theoretical frameworks of Sutton (1984) and Lindahl (1987) and are supported by the empirical work of Sutton (1988), Schallow (1995), Larson (1997), Ang et al. (2000) and Hill et al. (2002). The literature cited here suggests that the relevance of proposed accounting rules or rule changes to the particular economic setting of respondents has an impact on their lobbying behaviour. Consequently, we posit that corporate respondents will comment on issues of specific applicability of the concept of control to particular industries or companies as these would be of direct relevance to their business activities or their economic context. Following the notion of utility maximisation, it would be a waste of resources for a corporate respondent to comment on general issues without direct applicability to her/his specific economic context.

The non-corporate respondent category is dominated by accountancy firms and their professional bodies. The former are concerned with supplying accounting, auditing and professional advisory services to varied business sectors and the latter are faced with a similarly wide spectrum of diverse accounting issues and interests. Therefore we posit that non-corporate respondents would be more likely to address issues of general applicability of the concept of control as these are directly relevant to their line of business and consistent with other motivations of accountancy firms and their professional bodies. We note that consistent arguments can be applied to the non-accounting professional members of the non-corporate group.

4.2. Conceptual and economic arguments

Our second research question refers to potential differences in the nature of arguments used by the two respondent categories to support their pos-

¹⁷ This position might also be a source of economic incentives for the Law Society. An additional view from this theoretical standing is an interest in sound regulation per se by the accountancy profession qua custodian of professional standards. The Institute of Investment Management, academics, the Law Society, the International Stock Exchange, and the DTI can be considered to share this latter view.

itions; in relation to this question we hypothesise, in alternative form:

- H3:** Conceptually-based arguments will tend to be the most frequently used type of argument in submissions by both corporate and non-corporate respondents.
- H4:** Corporate respondents are more likely to use arguments based on economic consequences than are non-corporate respondents.

Hypotheses three and four require further disaggregation of our data by distinguishing sub-categories of arguments. Conceptually-based arguments are taken to refer to accounting concepts and principles as well as technical issues. Respondents using such arguments would base their reasoning on theoretical and conceptual soundness, as well as the technical feasibility of the proposals. They would also refer to potential institutional and legal complications caused by the proposals if they were to be in conflict (in the respondents' view) with current government policies or already existing regulations and statutory provisions. Economic consequences-based arguments are taken to refer to economic changes associated with proposed accounting regulations and the implications of those changes. Such economic changes would have scope (as perceived by respondents) to influence respondents' utility through the impact on their cash flows. Additionally, we identify a third type of argument, the combined argument, which refers jointly to both economic consequences and conceptual considerations. Typically, a lobbyist using a combined argument might refer to the economic implications of conceptual or technical flaws in proposed regulations (Tutticci et al., 1994).

We argue that hypothesis H3 is consistent with the general findings of the lobbying literature that respondents, on the whole, are more likely to favour conceptually-based arguments to support their positions as they believe such arguments will be more effective in influencing a regulator (Watts and Zimmerman, 1979; Sutton, 1984; Walker and Robinson, 1993; Tuticci et al., 1994; Weetman, 2001). According to Watts and Zimmerman (1979: 273) '... regulation creates incentives for individuals to lobby on proposed accounting procedures, and accounting theories are useful justifications in the political lobbying.' Some respondents may be reluctant to provide economic consequences-based arguments as they might be seen as self-serving and therefore less likely to be considered by a regulator (Jupe, 2000: 346). For hypothesis H4 we draw on positive accounting theory to argue that economic consequences-based arguments, when used, are

more likely to be offered by corporate than non-corporate respondents, since the former are more directly exposed to the specific economic implications of proposed accounting changes than the latter (Sutton, 1984; Lindahl, 1987). Moreover, we take from the literature the suggestion that non-corporate respondents might hesitate to use economic consequences-based arguments as this would conflict with the image of professionalism and objectivity that the accountancy profession (and other professional bodies) favours (Zeff, 1984; Hines, 1989; Booth and Cocks, 1990; Lee, 1993, 1995; Saemann, 1999). We observe that H3 and H4 are consistent in that even if the majority of arguments made are conceptually-based (because inter alia corporate respondents may prefer to disguise economic consequences rationales by using conceptually based arguments), corporate respondents would be still more likely to reveal at least some of their economic consequences-based arguments.

5. Data and methodology

Our analysis is based on the four exposure drafts that preceded the two accounting standards relevant to the concept of control for consolidated accounts. As indicated above, FRS 2 *Accounting for Subsidiary Undertakings* (ASB, 1992) was preceded by ED 50 (ASC, 1990b), while FRS 5 *Recording the Substance of Transactions* (ASB, 1994) was published after the subsequent release of three exposure drafts. These were: ED 42 *Accounting for Special Purpose Transactions* (ASC, 1988); ED 49 *Reflecting the Substance of Transactions in Assets and Liabilities* (ASC, 1990a); and finally FRED 4 *Reporting the Substance of Transactions* (ASB, 1993). Sets of comment letters on these exposure drafts were supplied by the library of The Institute of Chartered Accountants of Scotland.¹⁸

Table 1 reports the number of comment letters submitted on the four exposure drafts by corporate and non-corporate respondents. The letters were analysed for references to the concept of control and those that contained such references were selected for further detailed analysis. Overall, from 194 written responses submitted to the ASC and the ASB on the four EDs, 98 contained references to the

¹⁸ The authors recognise that an exclusive focus on written submissions captures only one of the varieties of actions encompassed within lobbying. As a potential remedy, an examination of materials from ASC and ASB archives was conducted. However, analysis of these materials revealed that records were incomplete and did not contain anything significant for the empirical research reported in the study. Consequently the paper focuses solely on written submissions to the EDs.

Table 1
Numbers of submission letters on all four exposure drafts

<i>Exposure draft</i>	<i>Number of submission letters on all aspects of the EDs</i>			<i>Number of submission letters with one or more reference to the concept of control</i>		
	<i>Corporate submissions</i>	<i>Non-corporate submissions</i>	<i>Total</i>	<i>Corporate submissions</i>	<i>Non-corporate submissions</i>	<i>Total</i>
ED 50	20	22	42	7	21	28
ED 42	27	29	56	12	8	20
ED 49	17	19	36	12	16	28
FRED 4	34	26	60	12	10	22
All four EDs	98	96	194	43	55	98

concept of control and these are the main focus of the present study. Of these 98 submissions, 43 were received from corporate respondents and 55 from non-corporate lobbyists.

The written submissions were reviewed in detail, applying content analysis, a method used widely in social sciences to examine different kinds of documentary accounts. Generally, content analysis is a research technique used to draw inferences from documents concerning sender(s) of the message contained in the document, the message itself, or the audience for the message (Bryman, 2001). In the context of accounting research, content analysis has been used to investigate financial information communicated through written narratives included in corporate annual reports (Aerts, 1994; Beattie and Jones, 1992, 1997); accounting, finance, and tax textbooks (Urbancic, 1993); official pronouncements by accounting bodies (Hooks and Moon, 1993); and written records of tax and legal cases (Taylor and Ingram, 1984). The lobbying literature examining written submissions on EDs has utilised a variety of forms of content analysis. In their studies, authors have employed analysis of different levels of detail and presented results ranging from simply determining whether lobbyists agreed or disagreed with proposals (e.g. Buckmaster and Hall, 1990; Georgiou and Roberts, 2004; Georgiou, 2005) to reporting rationales behind lobbyists' agreement or disagreement (e.g. Tutticci et al., 1994; Weetman et al., 1996; Weetman, 2001; Hill et al., 2002).

As noted above we use data at several levels of aggregation. The highest level is the submission letter (i.e. the entire letter submitted by a respondent, as recorded in Table 1). After the most general level examination of the number of comment letters the analysis proceeds by disaggregating submission letters by classifying the issues which they raise as referring either to the general or specific applicability of the concept of control. Within issues we next identify separately arguments and suggestions

offered by the respondents. To test hypotheses H3, and H4, arguments are further classified as being either conceptual or economic consequences-based or as a combination of the two (i.e. combined arguments).

We note that, considering the four hypotheses together, there are interrelationships within our classification of the contents of responses in that issues of general or specific applicability of the concept of control can be addressed by any type of argument (i.e. conceptual, economic consequences-based or combined). The detailed review of the submissions was undertaken independently by the two researchers and classifications were compared. Where differences in classification arose, these differences were compared and resolved by discussion. The data presented in the paper, and used to test our hypotheses, are the outcome of the agreed classifications.

In order to test our hypotheses we first present descriptive statistics based on frequency and proportions. Subsequently, we apply analysis of variance (ANOVA) techniques and univariate regression analysis to investigate the significance of the observed systematic differences in lobbying behaviour between the two categories of respondents.

6. Results

Hypotheses H1 and H2 relate to the relative likelihoods of corporate and non-corporate lobbyists commenting on issues of specific or general applicability in relation to the proposals in the EDs that refer to the concept of control. Tables 2, 3 and 4 report the data relevant to these hypotheses. Table 2 shows that consistently greater proportions of corporate respondents' submission letters to all four EDs address issues of specific applicability rather than issues of general applicability to the concept of control. The proportions are reversed for non-corporate respondents, again across all four EDs, and show greater emphasis on general applicability

Table 2
Analysis of submissions addressing issues of general versus specific applicability of the concept of control

<i>Submissions</i>	<i>Exposure draft</i>				
	<i>ED 50</i>	<i>ED 42</i>	<i>ED 49</i>	<i>FRED 4</i>	
Corporate respondents (number of submissions)	7	12	12	12	43
Submissions on general applicability					
Frequency	3	4	4	2	13
Proportions (%)	42.8	33.3	33.3	16.6	30.2
Submissions on specific applicability					
Frequency	4	11	8	10	33
Proportions (%)	57.1	91.7	66.7	83.3	76.7
Non-corporate respondents (number of submissions)	21	8	16	10	55
Submissions on general applicability					
Frequency	21	8	16	8	53
Proportions (%)	100.0	100.0	100.0	80.0	96.3
Submissions on specific applicability					
Frequency	4	2	5	5	16
Proportions (%)	19.0	25.0	31.2	50.0	29.0

of the concept of control. This is apparent within respondent categories as well as between them.¹⁹ Hence we conclude that the results reported in Table 2 are consistent with hypotheses H1 and H2.

Table 3 reports the frequencies of referring to the issues of general and specific aspects of the concept of control across all four EDs by corporate and non-corporate category of respondents.

Table 3 shows that for three of the four EDs, frequencies and proportions of corporate respondents referring to issues of specific applicability of the concept of control are greater than to the issues of general applicability of it (with ED 50 being an exception). For non-corporate respondents the frequencies and proportions of mentioning issues of general applicability dominate those of specific applicability for all EDs. Overall, taking into consideration all four EDs, over 70% of references from corporate respondents relate to issues of specific applicability of the concept of control and over 82% of total references from non-corporate respondents relate to issues of general applicability of this concept. ANOVA of issues reveals, on average, a significant effect ($F=56.54$) of the type of respondent (i.e. corporate versus non-corporate) on the subject of issues (i.e. specific versus general applicability). This is statistically significant at the 1% level. Additionally, estimates from regression

analysis confirm a significant effect of the type of respondent on the subject of issues which is statistically significant at the 1% level. These results are consistent with hypotheses H1 and H2.

Detailed examination of issues (see: Appendix I) indicates that the specific comments of corporate respondents were related mainly to special purpose financial vehicles (such as financial limited partnerships, credit-granting entities, mortgage securitisation vehicles and pension funds). Respondents expressed concern that if these financial vehicles were to be covered by the proposed regulatory definition of a subsidiary or a quasi-subsidiary, they might be ‘unnecessarily’ or ‘unfairly’ required to be consolidated by the originating or funding company. In contrast, non-corporate respondents addressed issues in relation to general interpretation of definitions and concepts included in the proposals. Their comments referred, for example, to discussion of the meaning of the term ‘dominant influence’, ‘participating interest’ or ‘management on a unified basis’. Also included in their comments were conceptual deliberations on definitions of control and controlled non-subsidiaries.

Table 4 reports the attention given to issues of specific and general applicability of the concept of control by corporate and non-corporate respondents as measured by frequencies and proportions of arguments and suggestions.

From Table 4 we note that across all four EDs corporate respondents consistently exhibit greater frequencies and proportions of arguments and

¹⁹ It should be noted that lobbyists could refer in their submissions to issues of specific and general applicability simultaneously. Hence, frequencies and proportions reported in Table 2 are not necessarily additive.

Table 3
Analysis of issues referring to general and specific applicability of the concept of control

<i>Type of respondent</i>	<i>ED 50</i>			<i>ED 42</i>			<i>ED 49</i>			<i>FRED 4</i>			<i>Aggregated frequencies and proportions for four EDs</i>		
	<i>Frequency and proportions of issues referring to control</i>			<i>Frequency and proportions of issues referring to control</i>			<i>Frequency and proportions of issues referring to control</i>			<i>Frequency and proportions of issues referring to control</i>			<i>Frequency and proportions of issues referring to control</i>		
	<i>General</i>	<i>Specific</i>	<i>Total</i>	<i>General</i>	<i>Specific</i>	<i>Total</i>	<i>General</i>	<i>Specific</i>	<i>Total</i>	<i>General</i>	<i>Specific</i>	<i>Total</i>	<i>General</i>	<i>Specific</i>	<i>Total</i>
Corporate															
Frequency of references	5	4	9	12	4	16	8	4	12	2	12	14	15	36	51
Proportions of references (%)	55.6	44.4	100.0	75.0	25.0	100.0	66.7	33.3	100.0	14.3	85.7	100.0	29.4	70.6	100.0
Non-corporate															
Frequency of references	55	5	60	2	16	18	5	16	21	8	7	15	87	19	106
Proportions of references (%)	91.7	8.3	100.0	20.0	76.2	100.0	23.8	76.2	100.0	53.3	46.7	100.0	82.1	17.9	100.0
Totals	60	9	69	14	20	34	13	33	46	10	19	29	102	55	157

suggestions on control issues that have a specific applicability rather than a general applicability. In contrast, non-corporate respondents exhibit greater frequencies and proportions of arguments and suggestions on the issues of a general applicability of the concept of control. At the aggregate level, for all EDs together, over 82% of arguments and nearly 70% of suggestions offered by corporate respondents refer to issues of specific applicability of the concept of control. The proportions are reversed for non-corporate respondents with 72% of arguments and 74% of suggestions relating to issues of the general applicability of the concept. ANOVA reveals, on average, a significant effect ($F=51.96$ for arguments and $F=15.61$ for suggestions) of the type of respondent (i.e. corporate versus non-corporate) on the nature of arguments and suggestions provided (i.e. referring to issues of specific versus general applicability). Results from regression analysis also indicate a significant effect (at the 1% level) of the type of respondent on the nature of arguments and suggestions offered. These results are consistent with hypotheses H1 and H2.

In passing we may observe that submission letters tended to be focused strongly on multiple issues within the broad scope of control. Across all four EDs only eight submissions were single-issue letters (two on each ED). Amongst the eight there was only one case of a non-corporate respondent commenting on a single matter (to ED 50). We also note that, of the seven corporate respondents submitting a one-issue comment, in each case the issue commented on had a direct relevance to the line of business of the respondent. It is interesting to observe that generally the close association between issues commented on and corporate respondents' business activities (and thus possible self-serving motivation and self-referential nature of comments) was not disguised by respondents.²⁰ For example, in the submission by Lazard Brothers & Co. on ED 50, comments referred to the potential distortion of group accounts caused by the proposed regulatory changes. To illustrate and support its views, Lazard Brothers & Co. enclosed a copy of its own organisational structure and a pro forma balance

²⁰ This aspect of evidence on lobbying poses particular problems of interpretation. There are references in the literature to self-serving motivations in discussing self-referential comments (see for example Jupe, 2000) and whilst such a description may be a reasonable interpretation it may also be pejorative and not accurately reflective of corporate lobbying behaviour since companies may be pointing out real defects in drafts of standards by using the most obviously available examples available to them, those drawn from their own experience.

Table 4
Analysis of arguments and suggestions on issues of general and specific applicability of the concept of control

Type of respondent	ED 50			ED 42			ED 49			FRED 4			Aggregated frequencies and proportions for four EDs		
	Frequency and proportions of arguments/suggestions to control issues			Frequency and proportions of arguments/suggestions to control issues			Frequency and proportions of arguments/suggestions to control issues			Frequency and proportions of arguments/suggestions to control issues			Frequency and proportions of arguments/suggestions to control issues		
	General	Specific	Total	General	Specific	Total	General	Specific	Total	General	Specific	Total	General	Specific	Total
Corporate															
Frequency of arguments	4	14	18	4	11	15	0	7	7	2	14	16	10	46	56
Proportions of arguments (%)	22.2	77.8	100.0	26.7	73.3	100.0	0.00	100	100.0	12.5	87.5	100.0	17.9	82.1	100.0
Frequency of suggestions	2	3	5	3	3	6	2	5	7	1	7	8	8	18	26
Proportions of suggestions (%)	40.0	60.0	100.0	50.0	50.0	100.0	28.6	71.4	100.0	12.5	87.5	100.0	30.8	69.2	100.0
Non-corporate															
Frequency of arguments	29	8	37	8	1	9	8	6	14	9	6	15	54	21	75
Proportions of arguments (%)	78.4	21.6	100.0	88.9	11.1	100.0	57.1	42.9	100.0	60.0	40.0	100.0	72.0	28.0	100.0
Frequency of suggestions	15	4	19	8	2	10	9	3	12	5	4	9	37	13	50
Proportions of suggestions (%)	78.9	21.1	100.0	80.0	20.0	100.0	75.0	25.0	100.0	55.6	44.4	100.0	74.0	26.0	100.0
Total arguments	33	22	55	12	12	24	8	13	21	10	19	31	102	62	131
Total suggestions	17	7	24	11	5	16	11	8	19	6	11	17	45	31	76

Table 5
Types of arguments used by corporate and non-corporate respondents

<i>Exposure draft</i>	<i>Corporate respondents</i>			<i>Non-corporate respondents</i>		
	<i>Conceptual arguments</i>	<i>Economic consequences based arguments</i>	<i>Combined arguments</i>	<i>Conceptual arguments</i>	<i>Economic consequences based arguments</i>	<i>Combined arguments</i>
ED 50						
Frequency	16	2	0	29	0	8
Proportions (%)	89.0	11.0	0.0	78.4	0.0	21.6
ED 42						
Frequency	14	1	0	9	0	0
Proportions (%)	93.3	6.7	0.0	100.0	0.0	0.0
ED 49						
Frequency	6	1	–	13	0	1
Proportions (%)	85.7	14.3	0.0	92.9	0.0	7.1
FRED 4						
Frequency	11	2	3	13	0	2
Proportions (%)	68.7	12.5	18.8	86.7	0.0	13.3
Total						
Frequency	47	6	3	64	–	11
Proportions	83.9	10.7	5.4	85.3	0.0	14.7

sheet of its own financial limited partnerships, and expressed its concern as follows:

'We seek to preserve the status quo: that is, that client funds are not included in our balance sheet or consolidated within our group accounts ... It would be misleading to our customers and banking depositors to show client investments in our balance sheet ... It would also distort our gearing ratios. Clearly it would also be damaging if these client assets (and liabilities) were consolidated into our banking control ratios monitored by the Bank of England ... The other regulator concerned – in our case, Investment Management Regulatory Organisation (IMRO) – looks on these investments as client assets.' (Lazard Brothers & Co. Ltd. ASB, 1990b: 156–157)

This tendency is apparent in other submissions. The Commonwealth Development Corporation (CDC), in its submission opposing consolidation of foreign joint ventures, openly used a self-referential approach, enclosing its financial reports with its comment letter, with its spokesperson stating:

'I enclose a copy of CDC's Annual Report since it is necessary to understand a little of what we are to appreciate the problems which I see in applying some of the provisions of the draft. A list of CDC's subsidiaries and associate companies appears on page 59 to 62 and our present basis of consolidation is explained on page 38. If we were to adopt a full consolidation basis we would appear to be a multi-national conglomerate, which we are not. Note 8 to our accounts represent a consolidation of all our 'non group' subsidiaries; you will see they are a pretty mixed bag. At present we consider we can continue with this form of accounting which is the only meaningful way in which we can report. You will see from the list of associates we are 50% shareholders in a number of companies. But are these companies under our "dominant influence?" (Commonwealth Development Corporation. ASB, 1990b: 189–190)

Hypotheses H3 and H4 refer to relative patterns of use of different types of arguments by lobbyists (i.e. arguments based on conceptual grounds, economic consequences, or a combination of both). Table 5 reports frequencies and proportions of usage of each type of argument by corporate and non-corporate respondents. We note that all respondents considered together generally used conceptually-based arguments. Of the 131 argu-

ments presented across all four EDs, 111 (85%) referred to conceptual considerations; only 6 (5%) were solely related to economic consequences; and 14 arguments (11%) combined conceptual and economic consequences-based justifications. Thus the data presented in Table 5 is consistent with hypothesis H3 which states that both corporate and non-corporate respondents would tend to use conceptually based arguments most often.

As Table 5 further shows, economic consequences-based arguments, when used, come solely from the corporate category of respondents. In all cases these arguments expressed concern with a potential distortion caused by the consolidation of special purpose financial vehicles (if recognised as subsidiaries or quasi-subsidiaries) on gearing and banking capital control ratios of originating or funding entities. These arguments were all received from corporate respondents representing the financial services sector. ANOVA shows, on average, a significant effect ($F=8.86$) of type of respondent on the incidence of economic consequences-based arguments, significant at the 5% level. Additionally, estimates from regression analysis suggest an effect of type of a respondent on the incidence of providing economic consequences-based arguments which is significant at the 10% level. These results are consistent with hypothesis H4.

7. Conclusions

The paper reports the results of detailed comparative analysis of the lobbying behaviour of two distinctive categories of respondents to four related EDs. These EDs were relevant to the regulatory concept of control used to determine the scope of consolidation in the UK prior to the implementation of IFRS. Whilst in the broad tradition of previous studies of lobbying on accounting standards, our research represents a contribution to the literature by providing evidence of differences in the pattern of lobbying behaviour between two different categories of respondents – corporate and non-corporate lobbyists. Moreover, the present study examines together four related EDs directed at a single area of regulation. In doing so it seeks to address the complexity of lobbyists' submissions rather than standard-setters' responsiveness to suggestions or the motivations of the parties involved in lobbying, the latter two themes being already well-represented in existing research. Complexity in lobbying through comment letters is examined using detailed content analysis of submissions, distinguishing issues addressed and arguments used by lobbyists. We classify issues as of specific or general applicability to the concept of control and

classify arguments by whether they are linked to conceptual, economic consequences, or combined concerns.

The results presented lend overall support to our hypotheses. Corporate respondents were found to devote much more attention to issues of specific applicability of the concept of control, whereas non-corporate respondents tended to devote more attention to general issues. Strong associations between the issues raised by corporate respondents and their line of business were revealed. These links were not generally disguised by respondents. With regard to the use of different types of arguments, both categories of respondents were found, as hypothesised, to advance conceptually-based arguments most often in their submissions. However, when economic consequences-based arguments were used, they came consistently from the corporate group.

In addition to the analytical and empirical contributions noted above, the paper provides a further contribution through its choice of subject matter. The concept of control for consolidation has been not only a past source of controversy in financial reporting and regulation, but remains controversial. Hence the subject of the paper maintains its relevance to current regulatory activities. Two long-standing IASB projects relate to the concept of control and confirm this as an unsettled area of regulation. This further regulatory attention may be necessary due to contemporary accounting scandals involving special purpose entities and a lack of clarity in current IFRS²¹ creating a pressing need to produce a single unified international standard (Paterson, 2003).

Thus the continuing regulatory relevance of control for consolidation offers potential for further

research. In particular the two IASB projects provide valuable opportunities for the examination of lobbying activities during the projects themselves and on the resulting EDs.²² Analysis of lobbying at the international level requires attention to each of the non-national interest groups (which may be domestic or pan-national), national interests (e.g. of nation states as represented by governments), and international interests, and hence is conducted in a richer institutional and political context than purely domestic standard-setting. The present study has focused on the domestic dimension of lobbying but, as the paper has noted, significant international forces operated in conjunction with domestic lobbying during the period covered by the research. Thus the EU Seventh Directive provided a complicating backdrop to the lobbying analysed in this paper. Cooper et al. (1996) compared accounting rule-making in the context of the implementation of EU directives to a game played out both internationally and nationally which involves interchange between the accountancy profession and the state, possibly involving issues not directly arising from directives.²³ Although some limited discussion of macro-level lobbying has been offered in the paper, we note that our decision not to consider in detail the full implications of such lobbying issues can be considered a limitation. However, we argue that it is one which we must accept, as addressing these issues fully would extend the scope of the present study too far. The limited data stored in ASC and ASB archives provided major constraints to the systematic conduct of such research but if investigation brings into the public domain additional data linked to such sources the analysis provided here may be enriched further.

²¹ As Hoogendoorn (2006: 25) comments: 'IFRS is unclear and unstable ... [The] best illustration is the interpretation of IAS 27 on consolidation. The IASB concluded that IAS 27 requires consolidation when de facto control exists. None of the Big Four audit firms had reached that conclusion. Apparently, IAS 27 is unclear.'

²² At the time of writing the ED on Phase D of *Conceptual Framework Project: Reporting Entity* was estimated for the release in the second half of 2009 while the ED on the *Consolidation Project* was to be published at the beginning of 2009.

²³ Inter alia Cooper et al. (1996) examine UK reaction to and lobbying against the independence provisions of the draft Eighth Directive against the background of other political processes occurring concurrently including shifting interrelationships between the UK profession and government, suggesting the existence of a multi-level process in the development of international accounting regulations. See also: Evans and Nobes (1998).

Appendix I

Issues addressed by corporate and non-corporate respondents

<i>General applicability</i>	<i>Issues addressed</i>		<i>Frequency</i>
	<i>Frequency</i>	<i>Specific applicability</i>	<i>Frequency</i>
ED 50			
<i>Corporate respondents</i>			
Dominant influence	3	Foreign joint ventures	2
Management on a unified basis	1	Financial limited partnerships	1
Control contracts	1	Credit granting entities	1
<i>Non-corporate respondents</i>			
Definition of control	7	Financial limited partnerships	2
Dominant influence	16	Funds under management	1
Participating interest	2	Venture capital companies	2
Management on unified basis	12		
Benefits of control	12		
Economic dependence	5		
Management contracts	1		
ED 42			
<i>Corporate respondents</i>			
Definition of control/controlled non-subsidiary	4	Securitised mortgage vehicles	9
		Pension funds	2
		Associates and joint ventures	1
<i>Non-corporate respondents</i>			
Definition of control/controlled non-subsidiary	8	Securitised mortgage vehicles	1
		Pension funds	1
ED 49			
<i>Corporate respondents</i>			
Definition of control/quasi-subsidiary	4	Securitised mortgage vehicles	7
		Factored debts	1
<i>Non-corporate respondents</i>			
Definition of control/quasi-subsidiary	16	Securitised mortgage vehicles	5
FRED 4			
<i>Corporate respondents</i>			
Definition of control/quasi-subsidiary	2	Securitised asset vehicles (mainly mortgages)	7
		Pension funds	1
		ESOPS	2
		Consolidation of investee companies by investment trust entities	1
		Sale/leaseback agreements	1
<i>Non-corporate respondents</i>			
Definition of control/quasi-subsidiary	8	Pension funds	4
		ESOPS	2
		Sale/leaseback agreements	1

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